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TAGS: [PGOV](#) [ECON](#) [PINR](#) [PREL](#) [SOCI](#) [CVIS](#) [KIPR](#) [LG](#)
SUBJECT: PM KALVITIS ON BORDER, RESTITUTION, ECONOMY, AND
THE NEXT LATVIAN PRESIDENT

Classified By: Ambassador Catherine Todd Bailey. Reason: 1.4 (D)

¶1. (C/NF) Summary: Latvian PM Kalvitis hopes to sign the border treaty with Russia March 26 - 27, and plans for speedy ratification, he told the Ambassador in a February 27 meeting. He suggested that there was a possibility of movement on restitution of Holocaust-era Jewish communal property, but called previous linkage with heirless private property "a strategic mistake." Concerned about an overheated economy and declining long-term forecasts, he blamed cheap credit from foreign banks and suggested small steps to cool things down, but declined to take any action that would target a middle class enjoying the consumer benefits of EU membership. Kalvitis also expressed frustration at what he views as a lack of US recognition for Latvian efforts on combating IPR violations. Finally, he told the Ambassador privately that he was not interested in becoming President and was having no luck recruiting EU commissioner Piebalgs for the job. End summary.

¶2. (U) Ambassador Bailey met with Latvian PM Aigars Kalvitis on February 27. Kalvitis was joined by his chief of staff, Maris Riekstins, and foreign policy advisor, Peteris Ustubs. Pol/econ chief accompanied the Ambassador as notetaker. Kalvitis was fighting off a cold, but in good spirits, especially at recent polls that continue to show his People's Party on top. Kalvitis noted that his oldest son would likely be going to school in the US starting in fall 2007. The school is renowned for its development of hockey players. Kalvitis is a huge fan of the sport and his son has shown some promise as a player.

¶3. (U) The Ambassador expressed condolences over the recent deaths of over twenty individuals in a fire at a facility to care for the mentally challenged. The Prime Minister said that fires are always a risk in cold weather when unsafe heating methods are used. In this case, the facility did not have enough people on duty to assist with the evacuation of the residents in a timely manner. He suggested that government would consider whether additional regulations were needed in this area.

Border treaty

¶4. (C) Kalvitis said that the cabinet on March 5 would take the decision to sign the border treaty with Russia, following on the authority granted by the parliament to do so. Latvia and Russia continue to work on the date for signing, but the PM hoped it could be March 26 - 27 with Prime Ministers signing and Presidents "in attendance." Kalvitis thought that Latvia could have the treaty ratified by June. (Note: That timing would presume no challenge in the Constitutional Court, but we suspect such a challenge will be filed. End note.)

¶5. (C) The Prime Minister thanked the Ambassador for U.S.

support for the treaty, saying that American and German support and engagement with Moscow had been very helpful in getting the process to this stage. The Ambassador noted positively that all elements of the Latvian government are working together on this, in contrast to the 2005 experience.

Restitution and March 16

¶16. (C) Ambassador Bailey expressed our strong disappointment at the rejection by parliament in November of a bill to address restitution of Jewish communal property and heirless private property. Kalvitis said that the government made "a strategic mistake" by combining both communal and heirless private property in the same bill. He suggested that the way forward was to take a "step by step" approach to the communal properties and said he had discussed this with Speaker Emsis. Following the meeting, Riekstins told the Ambassador that we should expect to see some movement soon on at least one of the 14 communal properties that had been in the bill.

¶17. (C) Turning to the upcoming March 16 events commemorating the anti-Soviet activities of the Waffen SS unit formed in Latvia in WWII, Kalvitis said he expected few problems this year. There would be "some meetings" but he foresaw no major demonstrations and no GOL officials would be near these events. Also, there was less potential for public disturbances as the Russian Ambassador "has better control over the Russian groups" that often march in counter-protest of the March 16 events.

Energy, judicial conferences

¶18. (C) Ambassador Bailey briefed on the Embassy's plans for conferences in the summer on the energy sector and in the area of the judiciary, the latter being headlined by Justice

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Alito, and thanked the PM for his office's support for both. After the conference, she noted, the PM might want to consider the creation of an energy advisor position in his office to coordinate all GOL actions on this issue given its importance. The PM welcomed the conferences and said the energy event was especially well timed. This summer Latvia will have to decide on energy issues stemming from the upcoming closure of the Ignalina nuclear facility in Lithuania, including what to do to generate power between the closure of the current plant and the opening of the proposed new facility. These issues would generate significant debate in Latvia and the conference could help stimulate and inform that debate.

The economy and IPR

¶19. (C) The Ambassador recalled the recent downgrade in Standard and Poors' long term economic assessment for Latvia and said that these assessments are influential with potential investors. The PM jokingly said that the problem was that there was too much American investment in Latvia, which was overheating the economy. Turning more serious, Kalvitis, a former economics minister, demonstrated a mastery of economic facts and figures about Latvia. He argued that cheap credit, financed by banks based and earning money overseas (mainly Scandinavia, but also the US) was driving up domestic consumption and, as a result, inflation. Private and corporate debt in Latvia was now roughly 100% of GDP and rapidly increasing. The Prime Minister said the government would look to cut the budget deficit, currently under one percent of GDP, to under half a percent. They would also impose some new excise taxes on car sales and real estate transactions and possibly a VAT increase on luxury items, but he ruled out an income tax increase. He stressed that he needed to balance managing inflation with the political reality that Latvians expect that EU membership and other economic improvements should allow them to buy things they previously could never imagine owning.

¶9. (C) PM Kalvitis raised the issue of Latvia's continued placement on the Special 301 watch list and the lack of a response to the 2006 out of cycle review. Frustrated, he explained that Latvia has done good work in the area -- noting in particular cooperation with Microsoft on software piracy issues -- and spent millions on enforcement, but there has been no US recognition of progress. The Ambassador stressed that we were pushing for an answer to the out of cycle review. Pol/Econ Chief noted the good cooperation from the GOL in answering any questions or requests for information we had and praised the recent passage of amendments to the copyright law, which addresses several concerns we have expressed in the past.

Visas

¶10. (C) Getting ahead of the expected discussion on this issue, the Ambassador noted that the dialogue on possible changes to the Visa Waiver Program (VWP) had advanced to the Hill and that Latvia should be engaging its friends there if they wanted to influence the process. She also noted that Latvia could usefully focus on issues such as document security that would almost certainly be part of any bill that emerged on this issue. Kalvitis acknowledged that this is a political issue. While the vast majority of Latvians qualify for visas, they see the need to visit the Embassy and apply as a sign that they are not valued as an ally and wonder why they are treated differently from others in the EU.

Presidential Election

¶11. (C/NF) In a one-on-one after the meeting, the PM told Ambassador Bailey that he had no interest in becoming President when the parliament selects someone for the job in June. His preferred choice, he claimed, is EU energy commissioner Piebalgs, but after two years of discussions, Piebalgs remains uninterested. Kalvitis also said that while it is still likely to be someone from the political world, he has ordered a review of the files of Latvia's Ambassadors overseas to consider some candidates from that field.
BAILEY